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SUBJECT: BRAZIL: ACTING MINES AND ENERGY MINISTER HUBNER

**¶11.** (U) In a meeting with EconCouns, Acting Minister of Mines and Energy Jose Hubner Moreira described his agency's role in energy supply contracting, discussed mining concession processes, and touched on the challenges of environmental legislation and working with the states at the federal level.

**¶12.** (U) Hubner noted his ministry lets all contracts for thermal (15 year term) and hydroelectric (30 year term) supply projects. He noted a 2004 law guides planning for future electricity needs (following the 2001 electricity supply crisis). Supply is through two models - regulated, through distribution companies that do market projections for five-year supply needs, then the ministry contracts for needed supply; and free, where a certain amount is reserved for the private market to distribute. Contracts contain a range of two to three percent flexibility in prices that may be charged to account for market movements. Hubner asserted that, due to better five-year planning (within the current Ten-Year Plan 2007-2016) under the requirements of the 2004 law, aversion of a future crisis was assured. Planning is based primarily on hydroelectric power and expanding existing facilities. He noted a major drought could affect projections, but the Ministry attempts to plan toward multiple scenarios. (2007 plan is on-line). (NOTE - other experts widely predict a serious energy crisis, including blackouts, somewhere between 2009 and 2016 in Brazil).

**¶13.** (U) On biofuels, Hubner noted his Ministry plays a role, along with the Ministries of Agriculture, Science and Technology, and others, but that the issue is actually centralized and organized in the Casa Civil, who coordinates work of the ministries and organizes the network of research efforts.

**¶14.** (U) On mining, the federal government owns all resources and does not share revenues with the states. However, companies that win mining concessions have to pay royalties (e.g. Petrobras pays the RJ Government for oil exploration in the Campos basin) directly to the state and/or municipality where the resource is located. Specific rates are determined by the resource mined, rather than contract by contract. Hubner noted that Congress is currently analyzing the rates paid to states. Australia and Canada pay more to states; Congress is interested in considering these models according to Hubner. Hubner noted he had a meeting with the Congo (Kinshasha) Mining Minister, who was seeking advice how to organize the mining sector more effectively in Congo. Hubner was not enthusiastic about Brazilian participation in the Extractive Industry Transparency Initiative (EITI), saying too few countries are implementing to make intensive Brazilian participation worthwhile.

**¶15.** (U) Hubner noted that unpredictable environmental legislation, and the politics of energy and the environment, were challenges for his agency. He mentioned a upcoming meeting with the governor of Parana State, who had given and rescinded permission for the Tibagi river hydroelectric project. Hubner hoped to convince him to let the project go forward, but noted that the ability of many levels of federal, state and municipal governments to block projects previously approved at a higher level was a continuing challenge.

16. (SBU) COMMENT: Jose Hubner Moreira was previously the deputy minister and before that was the chief of staff. He has been Acting Energy Minister since May 2007 but is expected to be replaced eventually by a Lula political appointee. He has a great deal of technical expertise and also realizes fully the political need to assert all is well in the sector in terms of future energy needs, despite researchers and press analysis revealing a crisis remains a possibility in the next several years. The Ministry's 10-year plan states that the Ministry will contract sufficiently to cover energy needs, but this does not guarantee that the infrastructure to deliver these MWh will actually be in place if PAC power plants projects are delayed. END COMMENT